Rural Development – Oregon
Business & Cooperative Programs

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BENEFITS OF THE SECONDARY MARKET

Business & Industry (B&I) Guaranteed Loan Program

One of the most attractive features of a B&I guarantee is that it can be sold to secondary markets, increasing the lender's return. Most buyers of SBA guarantees will also buy B&I guarantees. In addition, there is a unique secondary market for B&I guarantees – Farmer Mac II.

Farmer Mac II is a federally chartered secondary market, much like Fannie Mae, but specifically geared to USDA (including B&I) guaranteed loans. Unlike the SBA secondary market where the lender's return comes primarily from the one-time sale of the guarantee at a premium, with Farmer Mac the lender continues to earn the full spread between the note rate and the Farmer Mac base rate.

CASE STUDY: Suppose a lender makes a $2,000,000 loan with an 80% B&I guarantee. Say the note rate negotiated between the lender and borrower is Wall Street Journal Prime + 1.0% (varying not more often than quarterly), i.e. 7.00% + 1.0% = 8.00%. An attractive rate for the borrower, but for the lender? Let's see.

The lender can sell the guaranteed portion of the loan ($1,600,000 = 80% of $2,000,000) to Farmer Mac II, leaving $400,000 remaining in their portfolio. Farmer Mac typically pays par value ($1,600,000) to the lender for the guaranteed portion of the loan, replenishing the lender's funds for further investment. There is **no transaction fee**.

What is the lender's return on this loan?

1. Unguaranteed (20%) portion (which remains in the lender's portfolio):

$	400,000	Unguaranteed portion ($2,000,000 x 20%)
x	8.00%	Note rate
=	**$32,000**	**Interest earned on unguaranteed portion**

2. Guaranteed (80%) portion. Although this portion of the loan is no longer "held" by the lender, Farmer Mac pays the lender a *servicing fee* for servicing the loan. The amount of this premium equals the spread between the actual note rate and the "net yield" cited by Farmer Mac in its Rate Line (see reverse). In this case the difference is 3.00%, i.e. the difference between the 8.00% note rate and the 5.00%, "Wall Street Journal Prime" Net Yield cited on the Rate Line.

	$1,600,000	Guaranteed portion ($2,000,000 x 80%)
x	3.00%	Spread (8.00% Note Rate – 5.00% Net Yield @ Prime)
=	**$48,000**	***Servicing Fee***

Thus:

$	32,000	Return on unguaranteed portion
+	48,000	Return on guaranteed portion
=	**$80,000**	**Total Annual Return**

Since only $400,000 (the un-purchased, unguaranteed portion) of the original $2,000,000 loan is held by the lender, the result is a very favorable gross return on assets (before loan servicing expenses):

$80,000 return / $400,000 investment = **20.0 Percent !**

☞ Note that Farmer Mac also allows **LONG-TERM, FIXED INTEREST RATE LOANS** which give businesses the fixed rates they seek and still assure lenders an exceptional return. (See reverse.)

For more details, call Patrick Kerrigan at Farmer Mac (800-879-3276 x560).

FARMER MAC II

Financing Rural America

Secondary Market for USDA Guaranteed Loan Programs

Rate Line

November 22, 2005

Product Types:	Servicing Retained Net Yields* Monthly Pay Cash	4-Week Rate Lock	Annual, S.A., & Qrtly Pay Cash	4-Week Rate Lock
Wall Street Journal Prime	5.00%	N/A	5.00%	N/A
Farmer Mac 3-Mo COFI	5.19%	N/A	5.19%	N/A
Farmer Mac 5-Yr Reset COFI, 20, 25, 30-Yr Am	5.69%	5.72%	5.79%	5.82%
Farmer Mac 10-Yr Reset COFI, 20, 25, 30-Yr Am	5.96%	6.00%	6.06%	6.10%
7-Yr Fixed Rate, 7-Yr Am	5.72%	5.76%	5.82%	5.86%
7-Yr Fixed Rate, 15-Yr Am	5.74%	5.77%	5.84%	5.87%
15-Yr Fixed Rate, 15-Yr Am	5.76%	5.79%	5.86%	5.89%
15-Yr Fixed Rate, 25-Yr Am	5.80%	5.83%	5.90%	5.93%
20-Yr Fixed Rate, 20-Yr Am	6.10%	6.14%	6.20%	6.24%
25-Yr Fixed Rate, 25-Yr Am	6.45%	6.49%	6.55%	6.59%

* Indications only--actual Net Yields are determined at time of pricing and may differ from those indicated.

Loan Pricing:	Loans receiving Cash Rates are priced each Wednesday. Rate locks are issued Monday through Friday (10:00 AM - 3:00 PM eastern time) to registered lenders' pre-approved notes.
Settlement/Purchase:	Farmer Mac purchases loans each Thursday. Loans should be delivered to Colson Services Corp. one week prior to the anticipated Settlement Date.
Eligible Loans:	Farm Service Agency (FSA)- Farm Ownership (FO) and term Operating Loan (OL) Rural Development (RD)- Business & Industry (B&I) and Community Facility (CF)
Servicing Fees:	Determined by the lender and added to the Net Yield. Lender is responsible for collecting, reporting, and remitting loan payments to Colson.
Maximum LTV:	All credit and underwriting standards are determined by USDA and the lender.
Prepayment:	Borrower may prepay loan in part or in full at any time without penalty.
Next Reset Dates:	3-Mo COFI- 1/1/2006 and quarterly thereafter 5-Yr Reset COFI- 1/1/2011 and every 5 years thereafter 10-Yr Reset COFI- 1/1/2016 and every 10 years thereafter ***Balloons are not permitted on loans tied to either the 5- or 10-Year Reset COFI. Payments should adjust as the interest rate adjusts on fully amortizing loans.***
Payment Options & Dates:	Annual- January 1, April 1, July 1, or October 1 Semi-annual- January 1 & July 1, or April 1 & October 1 Quarterly- 1st day of each calendar quarter Monthly- 1st day of each month
Simple Interest:	Preferred accrual method- A/365
Transaction/Origination Fees:	All Farmer Mac fees are included in the Net Yield. Lenders are free to charge origination points.

For more information, contact Patrick Kerrigan or Judy Moye at 1-800-879-3276
(E-mail: Patrick_Kerrigan@farmermac.com/Judy_Moye@farmermac.com)

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